

Message Text

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SUBJ: MAJOR PROJECT: RAILROAD

1. DURING COURSE OF VISIT TO RAILROAD INSTITUTE BY PULLMAN-STANDARD PRESIDENT MCDIVITT, LYON LUCHESSI DESCRIBED REVISIONS IN BIDDING REQUIREMENTS. DETAILED TEXT IN SPANISH WILL BE DELIVERED EITHER TO EMBASSY OR ERIC NATHAN TODAY.

2. IN SUMMARY, THE FOLLOWING CHANGES HAVE BEEN MADE:
A) DELETION OF REQUIREMENT TO SUSCRIBE THREE PERCENT OF BID AMOUNT AS CAPITAL STOCK IN VENEZUELAN CORPORATION.
B. DELETION OF FIVE PERCENT GURANTEE TO COVER LABOR BENEFITS.
C. COMBINATION OF DOWN-PAYMENT GURANTEE WITH TEN PERCENT RETENTION OF PROGRESS PAYMENTS SO THAT AS ACCUMULATED RETENTION OF PROGRESS PAYMENTS INCREASE, BONDING REQUIREMENTS DECREASE.
D. MAXIMUM INDEMNIZATION FOR RECISSION OF CONTRACT BY EITHER PARTY WILL BE TEN PERCENT OF BID AMOUNT.
E. TOTAL ALLOWABLE CONSTRUCTION TIME, FROM DEFINITE CONCLUSION OF CONTRACT TO FINAL DELIVERY OF WORKING RAILROAD, INCREASED TO TOTAL OF FIFTY MONTHS. HOWEVER, ONE MILL PER DAY PENALTY FOR FAILURE TO COMPLETE ON SCHEDULE UP TO MAXIMUM BOLIVARES THREE HUNDRED MILLION REMAINS IN EFFECT.

3. THE RAILROAD INSITUTE ALSO RELEASED THE ESCALATION FORMULA APPLYING TO FOREIGN COSTS. THE MAXIMUM CEILING FOR ALL PRICE ESCALATIONS WILL BE FIFTEEN PERCENT OF THE TOTAL PROJECT COST
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FOR VENEZUELAN INPUTS AND TWENTY PERCENT FOR FOREIGN INPUTS.

THUS, WITH A TOTAL PROJECT COST OF ONE BILLION DOLLARS AND FOREIGN INPUT OF, SAY FOUR HUNDRED MILLION, MAXIMUM PRICE ESCALATION FOR FOREIGN INPUTS (RAIL CARS, LOCOMOTIVES, ETC.) COULD BE AS MUCH AS FIFTY PERCENT. A UNIT COST ESCALATION OF UP TO THIRTY PERCENT WILL BE ALLOWED IF EARTH-MOVING OR PQRIDGE BUILDING REQUIREMENTS EXCEED THE ROUGH ESTIMATES PRESENTED IN THE REQUEST FOR BIDS. LYON LUCHESSI WAS OF THE OPINION THAT THESE CONCESSIONS WOULD GO FAR TOWARDS OVERCOMING THE RESERVATIONS MORRISON-KNUDSEN HAS REGARDING A FIXED PRICE BID. HE AGAIN EXPLAINED THAT THE TARGET PRICE ESTIMATE FORMULA WOULD HAVE PARALYZED THE BID PROCESS, WOULD HAVE BEEN DIFFICULT TO ADMINISTER, AND CONTRARY TO VENEZUELAN PUBLIC CONTRACTING REGULATIONS.

4. NO EXTENSION IN THE DECEMBER SIX BID DEADLINE IS CONTEMPLATED.

5. DURING DISCUSSION OF PULLMAN-STANDARD PORTION OF BID, LYON LUCHESSI CLEARLY STATED THAT MORE FAVORABLE CONSIDERATION WOULD BE GIVEN TO PROPOSALS WHICH INVOLVE HIGHER PROPORTION OF FABRICATION OF RAILROAD CARS IN VENEZUELA, I.E., THE CREATION OF A METAL-WORKING INDUSTRIAL CAPABILITY. HE WAS APPROPRIATELY NON-COMMITAL ON THE QUESTION OF HOW PULLMAN-STANDARD SHOULD CARRY THIS OUT, VIA JOINT VENTURE OR OTHERWISE, AND WITH WHOM.

6. LYON LUCHESSI CONFIRMED THAT THE RAILROAD INSTITUTE WAS HOLDING DISCUSSIONS WITH A FOREIGN CONSULTANT (APPARENTLY DE LEUW CATHER) TO EVALUATE THE BIDS BUT THAT THE PRICE PROPOSED WAS HIGHER THAN THE INSTITUTE'S BUDGET ALLOWED. THE QUESTION NOW IS BEFORE THE MINISTER OF COMMUNICATIONS.
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